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PRODUCTS SUBJECT TO THE PETROLEUM PRODUCTS GROSS RECEIPTS TAX

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You asked what types of products are subject to the Connecticut petroleum products gross receipts tax. You were especially interested in any consumer products that are taxable.

SUMMARY

Connecticut's petroleum products gross receipts tax is 7% of the gross earnings derived from the first sale of certain petroleum products in the state. Thus, the tax falls on petroleum products distributors, who are required to file quarterly tax returns with the Department of Revenue Services (DRS). A consumer who buys a taxable petroleum product from a retailer is not liable for paying the tax, although the cost of the tax payment, like other upstream costs, is likely reflected in the retail price.

The law defines taxable petroleum products as products that are "made from or contain petroleum or a petroleum derivative" (CGS § [12-587 \(a\)\(4\)](#)). Although the law exempts certain petroleum products from the tax, the statutory definition is very broad and could be construed to encompass many items in everyday use, such tires, trash bags, baby oil, paint, plastic, nylon, and wood polish. But, DRS' implementing regulations, adopted in 1983, define taxable petroleum products more narrowly.

The regulations restrict the taxable products to (1) substances made in petroleum refineries either by distilling them from crude oil or redistilling them from unfinished oil derivatives and (2) petroleum-based lubricating oils and greases. Under this definition, the Connecticut tax applies to the following general categories of products, unless they are specifically exempt: (1) fuels, such as gasoline, kerosene, and propane; (2) chemicals, such as propylene, ethylene, and benzene, used to manufacture other products, in industrial processes, or as solvents; (3) materials used in construction, such as asphalt and tar; and (4) petroleum-based lubricants and greases, such as motor oil and petroleum jelly.

PETROLEUM PRODUCTS GROSS RECEIPTS TAX

Connecticut's petroleum products gross earnings tax applies to the gross earnings of companies distributing, refining, or importing petroleum products in Connecticut. The tax applies to gross revenue from the initial sale of petroleum products into the state. It is thus paid at the wholesale level and not collected from retail customers as a separate charge. The current tax rate is 7%. The rate is scheduled to increase to 8.1% on July 1, 2013. Taxable gross earnings from first sales of gasoline and gasohol, but not other taxable petroleum products, are limited to the first \$3 per gallon (CGS § [12-587](#), as amended by [PA 12-4](#)).

STATUTORY DEFINITION OF TAXABLE PETROLEUM PRODUCTS

State statute defines taxable petroleum products very broadly as "products that contain or are made from petroleum or a petroleum derivative" (CGS § [12-587 \(a\)\(4\)](#)). It exempts the following from the tax:

- products sold for export and use exclusively outside the state;
- number 2 heating oil used exclusively for heating, in a commercial fishing vessel, or in a vessel primarily engaged in interstate commerce;
- kerosene used exclusively for heating, when delivered by a truck that also delivers number 2 heating oil with a metered delivery ticket or to a centrally metered system servicing a group of homes;
- propane gas used for heating;
- bunker fuel oil, intermediate fuel, marine diesel oil, and marine gas oil used in vessels displacing over 4,000 dead weight tons;

- number 6 fuel oil used by manufacturers;
- paraffin and microcrystalline waxes;
- any commercial heating oil blend containing no less than 10% of alternative fuels made from agricultural produce; food waste; waste vegetable oil; or municipal solid waste, including biodiesel and low-sulfur dyed diesel fuel; and
- diesel fuel, except when used in an electric generation plant to generate electricity (CGS § [12-587\(b\)\(2\)](#)).

REGULATIONS ON TAXABLE PETROLEUM PRODUCTS

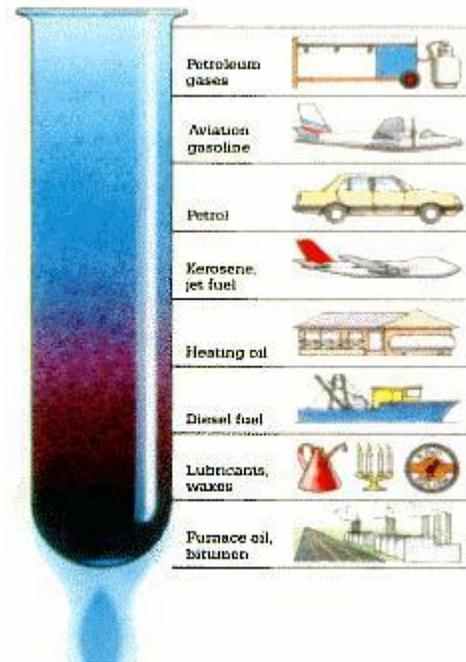
Given the number of products that contain petroleum or petroleum derivatives, the statutory definition, even taking into account the exemptions, would potentially subject many common consumer products to the tax. But DRS regulations implementing the tax substantially restrict the universe of taxable products ([Conn. State Agency Reg. § 12-602-1a](#)).

The regulations specify general requirements for taxable products, and supplement the requirement with a list of taxable petroleum products. The list is taken from Major Group 29 the *Standard Industrial Classification Manual of 1972*. Major Group 29 encompasses petroleum refining and related industries. According to DRS General Counsel, Louis Bucari, under the regulations, only the petroleum products listed in industry subgroups 2911 (Petroleum Refining) and 2992 (Lubricating Oils and Greases) are taxable. These products constitute the list of “petroleum products” in the DRS regulation.

General Requirements

Under DRS regulations, taxable petroleum products are those that are refined from crude petroleum or its fractionation products either through “straight distillation” (i.e., by boiling off other material) or through “redistillation of unfinished petroleum derivatives” (i.e., by further refining the material resulting from the initial distillation).

Petroleum refining uses distillation and other types of processing to separate crude oil into different components. The distillation process is known as “fractionation.” The resulting “fractionation products,” are categorized according to their boiling points (see Illustration).



Source: [Australian Institute of Petroleum](#)

DRS regulations exclude products that are manufactured from petroleum fractionation products after they leave the refinery. For example, the fractionation product propylene is subject to the Connecticut petroleum products tax on its first sale in the state. But, once the propylene is made into acetone and becomes an ingredient of nail polish remover, the nail polish remover is not a taxable petroleum product.

Taxable Products List

Table 1 provides a list and general description of the products subject to Connecticut’s petroleum products gross earnings tax. The list is taken from the DRS regulation and the two SIC subgroups. Some of the products included in the 1983 regulation, such as paraffin and microcrystalline waxes, were subsequently exempted from the tax by and are omitted from Table 1.

In addition, gross earnings are exempt if certain petroleum products are sold exclusively for specified uses, such as for heating. We included these products below because they are taxable when sold for other uses. For example, kerosene is taxable if sold for use in a camp stove but not in a space heater. Likewise, propane is taxable when sold for use in cooking but not when sold exclusively for home heating.

Table 1: Taxable Petroleum Products

Product	Description
Acid oil	None found
Alkylates	High-octane-value products typically blended with motor and aviation gasoline to enhance their anti-knock value.
Aromatic chemicals	Chemicals related to benzene (see below); highly flammable
Asphalt and asphaltic materials, liquid and solid	Generic name for bitumen (see below)
Benzene	Hydrocarbon used as a solvent; in manufacturing detergents, synthetic fibers, and petrochemicals; and as a component of high octane gasoline. Also used in explosives.
Bituminous road materials	Another name for tar. Used for road paving.
Brake fluid	Oily liquid used to transmit pressure in a hydraulic brake or clutch system.
Butadiene	Colorless, easily liquefied, and flammable gas used to make synthetic rubber.
Butylene	A liquefied petroleum gas, see below.
Coke, petroleum	Refinery residue with high carbon and low hydrogen content. Used to manufacture synthetic gas and carbon electrodes and as refractory lining for arc furnaces.
Cutting oils, blended and compounded from purchased material	Generic name for coolants and lubricants used in metal working and machining processes.
Ethylene	Hydrocarbon used as petrochemical feedstock for many chemical applications and in the production of anesthetics, antifreeze, and detergents.
Fractionation products of crude petroleum	Generic term for products refined and distilled from crude oil.
Gas, refinery or still oil	Refinery gas is gas produced in a petroleum refinery, principally methane, ethane, ethylene, butanes, and butylenes. Still oil is a liquid with a viscosity between kerosene and lubricating oil. Originally used to make illuminating gas, it is now used to produce distillate fuel oils and gasoline.
Gasoline, other than natural gas	Liquid used mostly as motor vehicle fuel.
Hydraulic fluids	Medium for transferring power in hydraulic machinery, such as backhoes, power steering systems, garbage trucks, and elevators.
Hydrocarbon fluid	Generic term for fluids made from hydrogen and carbon found in crude oil.

Table 1 (continued)

Product	Description
Illuminating and lubricating fuel oils	Generic term for substances like kerosene and motor oil.
Jet fuels	Types of aviation fuel used in gas turbine engines.
Kerosene	Light combustible petroleum distillate used in space heaters, cook stoves, and water heaters. Suitable as a light source when burned in wick-fed lamps. Also used in liquid pesticides.
Liquefied petroleum gas	A group of hydrocarbon-based gases that includes ethane, ethylene, propane, propylene, normal butane, butylene, isobutene, and isobutylene. Liquefied through pressurization for transportation purposes.
Lubricating greases and oils	Substances used to reduce friction between surfaces or as processing material. Includes motor oil, WD-40, etc.
Mineral jelly	See petrolatum, below
Mineral oils, natural	Used in skincare products and as a wound treatment.
Naphtha	Generic term for a petroleum fraction product with a boiling range between 122 and 400 degrees Fahrenheit. Used in jet fuel, cleaning solvents, and as paint thinner and petrochemical feedstock (substances used to manufacture chemicals, synthetic rubber, and various plastics). Can be blended into motor gasoline.
Naphthenic acids	Used in corrosion inhibitors, wood preservatives, lubricants and fuel additives, and driers for paint and ink. Also found in insecticides, fungicides, and napalm.
Partly refined oils sold for rerunning	Oils requiring further processing. Includes naphthas, kerosene, and other refinery products.
Petrolatums	Petroleum jelly. Used as skin protectant.
Propylene	Hydrocarbon used to make acetone and phenol. Also makes a smooth-surface plastic that cracks easily when bent but is difficult to scratch. Used for battery cases, jar lids, margarine tubs, drinking straws, etc.
Road oils	Heavy petroleum oil used to reduce dust and as a surface treatment on roads and highways.
Rust arresting compounds, animal and vegetable oil based	See naphthenic acids, above
Solvents	Generic term for substances that dissolve other substances.
Tar or residuum	Residue from crude oil left after distilling off all but the heaviest components.
Transmission fluid	See hydraulic fluid, above.

Product List: [Conn. Agency Reg., § 12-602-1a \(b\)](#) and SIC subgroups 2911 and 2992

Description Sources:

1. "Definitions of Petroleum Products and Other Terms (Revised May 2010)," *Weekly Petroleum Status Report*, U.S. Energy Information Administration, U.S. Department of Energy. (http://www.eia.gov/pub/oil_gas/petroleum/survey_forms/defntnp4.pdf)
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